

# FISCAL NOTE

**Bill #:** SB0200.04

**Title:** Stimulate economic growth and business retention by providing tax incentives

**Primary**

**Sponsor:** Mike Taylor

**Status:** Second Reading--Second House as Amend

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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## Fiscal Summary

FY99 Impact: It is estimated that reducing the taxable rate on class 6 property will result in a property tax revenue reduction in FY99 of \$216,424 for the 95 mill levy, \$13,370 to the 6 mill levy, and \$5,014 to the 9 mill levy for state assumption of welfare.

	<b><u>FY2000 Difference</u></b>	<b><u>FY2001 Difference</u></b>
<b>Expenditures:</b>		
General Fund	5,318,093	15,298,781
<b>Revenue:</b>		
General Fund	(\$2,025,812)	(\$5,582,257)
State Special Revenue	(\$192,052)	(\$792,954)
<b>Net Impact on General Fund Balance:</b>	<b>(7,343,905)</b>	<b>(20,881,038)</b>

<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
X		Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

## Fiscal Analysis

### ASSUMPTIONS:

#### **Phase-in of class 8 property exemption**

1. The statewide average mill levy for class 8 property is estimated to be 390 mills. Average mill levies are 95 mills for the general fund, 6 mills for the university system, and 285.4 mills for local governments. There are 9 mills levied for the state assumption of welfare (thirteen counties levy this mill).
2. The exemption value for tax year 2000 is \$15,000. The exemption value for tax year 2001 is \$40,000. The exemption for tax year 2002 is \$100,000. The exemption value for tax year 2003 is \$500,000. All class 8 property is exempt in tax year 2004 and after.
3. Local governments will be reimbursed for the reduction in class 8 property tax revenues due to the proposal. The reimbursement amount will be based on tax year 1999 valuations and mill levies.

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4. The reduction in taxable value in tax year 2000 due to the exemption level of \$15,000 is \$34,344,864. Of this total \$13,737,864 is in a county that levies the 9 mill levy for state assumption of welfare.
5. The reduction in taxable value in tax year 2001 due to the exemption level of \$40,000 is \$61,048,311. Of this total \$24,419,325 is in a county that levies the 9 mill levy for state assumption of welfare.
6. The reduction in taxable value in tax year 2002 due to the exemption level of \$100,000 is \$90,512,821. Of this total \$36,205,128 is in a county that levies the 9 mill levy for state assumption of welfare.
7. The reduction in taxable value in tax year 2003 due to the exemption level of \$500,000 is \$130,221,200. Of this total \$52,088,480 is in a county that levies the 9 mill levy for state assumption of welfare.
8. The reduction in taxable value in tax year 2004 due to the exempting all class 8 property is \$228,276,496. Of this total \$91,310,599 is in a county that levies the 9 mill levy for state assumption of welfare.
9. The reduction in taxable value in tax year 2005 due to the exempting all class 8 property is \$236,037,897. Of this total \$94,415,159 is in a county that levies the 9 mill levy for state assumption of welfare.
10. The reduction in taxable value in tax year 2006 due to the exempting all class 8 property is \$244,063,186. Of this total \$97,625,274 is in a county that levies the 9 mill levy for state assumption of welfare.
11. The reduction in taxable value in tax year 2007 due to the exempting all class 8 property is \$252,361,334. Of this total \$100,944,534 is in a county that levies the 9 mill levy for state assumption of welfare.
12. The portion of the property taxes paid by class 8 that is not liened to real property is 38% (MDOR). Because of this, property taxes paid for tax years do not match property taxes paid by fiscal years.
13. The proposal will result in a reduction of class 8 property tax revenues in FY00 of \$1,239,850 for the general fund, \$78,306 for the 6 mill levy, \$46,984 for the 9 mill levy state assumption of welfare, and \$3,724,769 for local governments. Local governments will be reimbursed \$3,602,291 in FY00.
14. The proposal will result in a reduction of class 8 property tax revenues in FY01 of \$4,226,757 for the general fund, \$266,953 for the 6 mill levy, \$160,172 for the 9 mill levy state assumption of welfare, and \$12,698,067 for local governments. Local governments will be reimbursed \$12,069,982 in FY01.
15. The proposal will result in a reduction of class 8 property tax revenues in FY02 of \$6,863,258 for the general fund, \$433,469 for the 6 mill levy, \$260,081 for the 9 mill levy state assumption of welfare, and \$20,618,673 for local governments. Local governments will be reimbursed \$18,983,099 in FY02.
16. The proposal will result in a reduction of class 8 property tax revenues in FY03 of \$10,032,190 for the general fund, \$633,612 for the 6 mill levy, \$380,167 for the 9 mill levy state assumption of welfare, and \$30,138,812 for local governments. Local governments will be reimbursed \$26,842,362 in FY03.
17. The proposal will result in a reduction of class 8 property tax revenues in FY04 of \$15,910,810 for the general fund, \$1,004,893 for the 6 mill levy, \$602,936 for the 9 mill levy state assumption of welfare, and \$47,799,424 for local governments. Local governments will be reimbursed \$41,103,653 in FY04.
18. The proposal will result in a reduction of class 8 property tax revenues in FY05 of \$21,966,454 for the general fund, \$1,387,355 for the 6 mill levy, \$832,413 for the 9 mill levy state assumption of welfare, and \$65,991,851 for local governments. Local governments will be reimbursed \$55,120,414 in FY05.
19. The proposal will result in a reduction of class 8 property tax revenues in FY06 of \$22,713,313 for the general fund, \$1,434,525 for the 6 mill levy, \$860,715 for the 9 mill levy state assumption of welfare, and \$68,235,575 for local governments. Local governments will be reimbursed \$55,120,414 in FY06.
20. The proposal will result in a reduction of class 8 property tax revenues in FY07 of \$23,485,566 for the general fund, \$1,483,299 for the 6 mill levy, \$889,979 for the 9 mill levy state assumption of welfare, and \$70,555,584 for local governments. Local governments will be reimbursed \$55,120,414 in FY07 and succeeding fiscal years.

**Reduction of class 6 tax rate**

21. The effective date of the class 6 taxable rate reduction is Jan. 1, 1999.

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22. Under current law the taxable value of class 6 property is expected to remain at tax year 1998 levels (\$23,833,179).
23. It is estimated that the average mill levy applied to class 6 property is 369 mills.
24. The reduction in total property taxes paid by class 6 property (for tax year) is estimated to be \$2,198,988 for TY99, \$4,153,190 for TY00, \$6,596,963 for TY01, and \$8,795,951 for TY02 and succeeding tax years.
25. The portion of the property taxes paid by class 6 that is not liened to real property is 38% (MDOR). Because of this, property taxes paid for tax years do not match property taxes paid by fiscal years. For example, reducing the tax rate of class 6 property in tax year 1999 will result in a revenue loss in FY99 of \$835,615.
26. The reduction in total property taxes paid by class 6 property is estimated to be \$835,615 in FY 99, \$3,034,603 in FY00, \$5,233,591 in FY01, \$7,432,578 in FY02, and \$8,795,951 in FY03 and succeeding fiscal years.
27. Total property tax revenue is distributed 25.9% to the 95 mill levy, 1.6% to the 6 mill levy, 0.6% to the 9 mill levy, and 71.9% to local governments.
28. Reduction of the rate of class 6 property results in a property tax revenue loss to the 95 mill levy of \$216,424 in FY99, \$785,962 in FY00 and \$1,355,500 in FY01.
29. Reduction of the rate of class 6 property results in a property tax revenue loss to the 6 mill levy of \$13,370 in FY99, \$48,554 in FY00 and \$83,737 in FY01.
30. Reduction of the rate of class 6 property results in a property tax revenue loss to the 9 mill levy of \$5,014 in FY99, \$18,208 in FY00 and \$31,402 in FY01.
31. Reduction of the rate of class 6 property results in a property tax revenue loss to local governments of \$600,807 in FY99, \$2,181,880 in FY00 and \$3,762,952 in FY01.
32. Local governments will be reimbursed for the reduction in class 6 property tax revenues. The reimbursement for each fiscal year is based on the estimated reduction in property taxes in the prior tax year (i.e., FY00 reimbursement is based on TY99 property tax reduction, etc.). This will result in the reimbursement amount lagging behind the reduction in property taxes.
33. Reimbursements are estimated to be \$0 for FY99, \$1,581,072 for FY00, \$3,162,144 for FY01, \$4,743,216 for FY02, and \$6,324,289 for FY03 and succeeding fiscal years.

### **Impact to GTB funding**

34. The combination of a reduction in taxable values and an increase in non-levy revenue (class 6 and class 8 reimbursements) will cause school districts to change GTB levies in FY2000 and FY2001 to maintain minimum budgets required under section 20-9-308(1)(a), MCA. The change will increase by \$134,730 the amount of state GTB aid in FY2000 and increase by \$66,655 the amount of state GTB aid in FY2001.

### **Administrative costs**

35. It is anticipated that the proposal will result in reduced expenditures for the department. An estimate of this amount cannot be made at this time.

### **FISCAL IMPACT:**

FY99 Impact: It is estimated that reducing the taxable rate on class 6 property will result in a property tax revenue reduction in FY99 of \$216,424 for the 95 mill levy, \$13,370 to the 6 mill levy, and \$5,014 to the 9 mill levy for state assumption of welfare.

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	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
<u>Expenditures:</u>		
Local Assistance - School GTB	134,730	66,655
Class 8 Reimbursement	3,602,291	12,069,982
Class 6 Reimbursement	<u>1,581,072</u>	<u>3,162,144</u>
Total	5,318,093	15,298,781
<u>Funding:</u>		
General Fund (01)	5,318,093	15,298,781
<u>Revenues:</u>		
General Fund (01)		
Class 8 Property Exemption	(1,239,850)	(4,226,757)
Class 6 Rate Reduction	<u>(785,962)</u>	<u>(1,355,500)</u>
Subtotal General Fund	(\$2,025,812)	(\$5,582,257)
State Special Revenue (02)		
6 mill	(\$126,860)	(\$350,690)
9 mill	<u>(65,192)</u>	<u>(191,574)</u>
Subtotal State Special Revenue	(\$192,052)	(\$542,264)
<u>Net impact to General Fund Balance (revenue minus expenditure):</u>		
General Fund (01)	(7,343,905)	(20,881,038)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

It is estimated that the proposal will result in a reduction in property tax revenue of local governments of \$600,807 in FY99, \$723,285 in FY00, and \$1,228,892 in FY01.

LONG-RANGE IMPACTS:

It is estimated that revenues for the general fund would be reduced by \$72,230,257 in the 2003 Biennium, \$149,407,733 in the 2005 Biennium, and \$170,323,439 in the 2007 Biennium.

It is estimated that revenues for the 6 mill university levy would be reduced by \$1,326,737 in the 2003 Biennium, \$3,820,686 in the 2005 Biennium, and \$5,235,431 in the 2007 Biennium.

It is estimated that revenues for the 9 mill levy for state assumption of welfare would be reduced by \$737,620 in the 2003 Biennium, \$2,292,412 in the 2005 Biennium, and \$3,141,258 in the 2007 Biennium.

It is estimated that revenues for the local governments would be reduced by \$5,532,831 in the 2003 Biennium, \$17,567,207 in the 2005 Biennium, and \$28,550,330 in the 2007 Biennium. This loss in revenue is the net of the loss in property tax revenue and reimbursements.